

STATEMENT OF SENATOR JOHN S. McCAIN
COMMITTEE ON COMMERCE, SCIENCE AND TRANSPORTATION
UNITED STATES TRADE WITH CHINA
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There is no question that China represents one of this country's central foreign policy challenges in the 21st Century. An important trade partner with aspirations of increasing influence throughout the Asia Pacific region, China will remain at the forefront of U.S. foreign policy discussions for the foreseeable future.

The subject of this morning's hearing, China's entry into the World Trade Organization and the question of granting permanent Normal Trade Relations to that country, is rarely discussed in a vacuum. With China's entry into the WTO and implementation of the terms of the November 1999 trade agreement, the United States stands to benefit substantially--benefits that will be felt by industry and American labor alike.

As a member of the WTO, China will be required to take steps it has been historically reluctant to adopt, and at the risk of a level of social turbulence completely anathema to the ruling Communist Party regime. These steps include major reductions in industrial tariffs, from an average of 24 percent to an average of 9.4 percent; reductions in tariffs on agricultural goods from an average of 31 percent to 14 percent, as well as elimination of non-tariff barriers on agricultural imports; major openings in industries where China has been extremely reluctant to permit foreign investment, including telecommunications and financial services; and unprecedented levels of protections for intellectual property rights.

As a result of WTO membership, the pillars of one-party domination, especially the corruption endemic to the current system, could begin to crumble under the weight of transparency and reforms that are the price of China's entry into the global trading system.

One need look no further than recent reports of rioting this past February by more than 20,000 miners and their families stemming from the pervasive inefficiency and corruption in the state-owned enterprises that are at risk of extinction under the economic reforms China will be required to carry out. How China will deal with this social turbulence is one of the most important questions facing not just Beijing, but all people who care about economic advancement and human rights.

There is no question that increased and better regulated trade with China will benefit the United States. What many following the debate are concerned about, however, is whether and how increased trade between the two countries will benefit the population of China beyond the ruling elite. One of the witnesses testifying here this morning is Mr. Harry Wu, whose story imbues him with a level of moral authority that all Americans should respect. Mr. Wu's personal experience with the forced labor system in China, as well as

his continuing efforts to shine a light on those abhorrent practices, weigh heavily in the considerations of all those who believe human rights should be a priority of U.S. foreign policy.

There is also an argument that the quality of life of hundreds of millions of Chinese citizens is immeasurably improved as a result of the economic reforms implemented by the late Deng Xiaoping and continued under his successors, most prominently Premier Zhu Rongji. Since the introduction of economic reforms in 1979, China's economy has emerged as one of the fastest growing in the world. World Bank figures show that as many as 200 million Chinese have been lifted out of poverty as a result of the government's decision to liberalize the economy. While it is estimated that as many as 30 percent of the population continue to subsist below the poverty level, the size of the middle class has expanded dramatically. A recent Congressional Research Service study noted that, by the year 2005, China will have more than 230 million middle-income consumers. Clearly, economic reform, fueled in large part by trade, is benefitting the average Chinese citizen. It has not, however, liberated them from the dictatorial powers of the state.

Moreover, Zhu's threatening statements toward Taiwan prior to the latter's recent elections, as well as his admonition that a failure by the United States to pass permanent Normal Trade Relations will be regretted by us for 1,000 years are sadly illustrative of the Communist Party's adherence to obsolete and discredited policies.

That said, membership in the WTO carries with it responsibilities that are at variance with Communist Party practice. That is why Martin Lee, chairman of the Democratic Party of Hong Kong, noted that China's participation in the WTO would "bolster those in China who understand that the country must embrace the rule of law." Similarly, Wang Shan, a liberal political scientist, stated that "Undoubtedly [the China WTO agreement] will push political reform." And the former editor of the democratic journal Fangfa has written that "if economic monopolies can be broken, controls in other areas can have breakthroughs as well...In the minds of ordinary people, it will show that breakthroughs that were impossible in the past are indeed possible."

We have before us today witnesses who will shed light on both sides of the debate over Chinese accession to the WTO and the granting of permanent Normal Trade Relations. First, we will hear from the Honorable William Daley, Secretary of Commerce. In a subsequent panel, we will hear from:

*General Brent Scowcroft, former National Security Advisor and President of The Scowcroft Group;

*Mr. Jack Valenti, President of the Motion Picture Association of America, who will shed light on the impact of the 1999 trade agreement on intellectual property right protection;

*Mr. H. Richard Kahler, president of Caterpillar Corporation, representing

the Business Roundtable;

*Ms. Lori Wallach, director of Global Trade Watch; and

*Mr. Harry Wu, to whom I referred earlier in my remarks, who has spoken eloquently of the brutal system of forced labor that endures inside China.

Before we hear from Secretary Daley, do any members of the Committee wish to make opening remarks?

Secretary Daley: